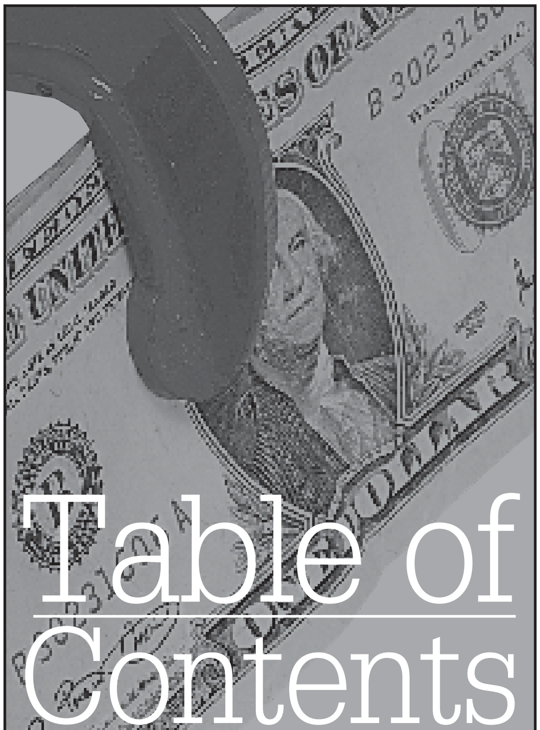
2007 COST OF DOING BUSINESS STUDY

Financial and operational performance data for hardware stores, home centers and lumber/building materials outlets.

North American Retail Hardware Association ▪ Home Center Institute



2007
Cost of Doing Business Study

Executive Summary

Detailed Results

Appendix

Published by the North American Retail Hardware Association and Home Center Institute.

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2007 Cost of Doing Business Study

Published by the North American Retail Hardware Association and Home Center Institute

INTRODUCTION: The 2007 *Cost of Doing Business Study* presents the North American Retail Hardware Association's and Home Center Institute's annual financial and operational profile of independent hardware stores, home centers and lumber/building materials outlets.

This study assesses the financial performance of hardware retailers who graciously submitted confidential financial reports for 2006 to NRHA/HCI. The study presents composite income statements and balance sheets plus averages for key financial performance ratios.

The data is segmented for hardware stores, home centers and lumber/building materials outlets. In each segment, data is presented for the typical store, for high-profit stores, for single unit and multiple unit companies and for sales volume categories. In addition, there is a five-year historical trend for typical stores in each segment.

Retailers can use this data to measure their own performance against industry averages. The data sets benchmarks retailers can use to establish financial plans to improve profitability.

METHODOLOGY: The annual NRHA/HCI *Cost of Doing Business Study* is made possible through the cooperation of hardware store, home center and lumber/building materials outlet owners and managers who provide detailed financial and operational information on their individual companies.

Questionnaires were mailed to a sampling of hardware stores, home centers and lumber outlets in the U.S. to collect detailed financial and operational information for 2006. All completed questionnaires were returned to NRHA/HCI and were accepted until May 31, 2007.

The analysis in this report are the result of extensive review by NRHA/HCI. All individual company responses are completely confidential.

Most of the figures in this report are medians. The median for a particular calculation is the middle number of all values reported when arranged from lowest to highest. The median represents the typical company's results and is not influenced by extremely high or low reports.

To determine high-profit stores, all participating companies were ranked based on pre-tax return on assets. The high-profit companies in each segment are those that make up the top 25 percent. The figures reported for each of the high-profit segments represent the median for that group.

Key Findings

HARDWARE STORES

Definition: Hardware stores carry little or no lumber and building materials but do carry full lines of core home repair and maintenance products.

Hardware stores reported a 0.9 percent sales increase for 2006, about the same as the slow growth reported in 2005. The bottom-line profit margin of 2.9 percent, which is near historic levels, was unchanged. Return on net worth rose slightly from 9.5 to 10.1 percent, while return on assets decreased from 6.1 to 5.8 percent.

Despite increased competition, hardware stores have been able to maintain their margins, coming in at 41.1 percent in 2006, a figure that is virtually unchanged for the past three years.

Hardware store owners were able to hold the line on expenses in 2006, with total operating expenses of 39.5 percent the same as the previous year. This stops a six-year trend of higher operating expenses. Payroll costs were down, offset by a slight rise in occupancy costs.

More alarming is the fact customer counts declined 15 percent with sales per customer unchanged at $15. Hardware stores should consider focusing more on promotions and special events as well as add-on selling and impulse sales to boost these important numbers.

Hardware stores continue to maintain higher inventory levels, as inventory per square foot rose to $46. That figure typically came in about $35 per square foot in the late 1990s. The inventory holding period went up while inventory turnover declined from 2.0 to 1.9 turns. Inventory productivity ratios such as sales per square foot, gross margin return on inventory and gross margin per square foot all decreased.

Employee productivity ratios such as sales per employee and gross margin per employee also exhibited a downward trend.

High-profit hardware stores matched the 0.9 percent sales increase of the typical stores, but that's where the similarities in performance end. High-profit hardware stores posted nearly three times the return on net worth and nearly five times the operating profit of the typical hardware store, and their profit before taxes was 8.9 percent compared to 2.9 percent for typical stores.

This gap in profits can be explained by the fact high-profit hardware stores reported higher margins and lower payroll, occupancy and total operating expenses compared to typical stores. Margins were 2.5 points higher while expenses came in at 3.7 points lower.

High-profit stores reported sales that were 34 percent higher than the typical store, mainly because they recorded 30 percent more transactions and a slightly higher transaction size.

The typical hardware store trailed high-profit stores significantly in all the key ratios such as inventory turnover, sales to inventory, gross margin return on inventory, sales per square foot, gross margin per square foot and sales per employee.

HOME CENTERS

Definition: Home centers are a hybrid mix of hardware store and lumberyard. Home centers carry full assortments of hardlines shelf goods as well as commodity lumber and building materials in a minimum of 10,000 square feet of selling space. Warehouse home centers, which are typically more than 100,000 square feet, are not included in this report.

Home centers posted minimal sales growth of 1.1 percent in 2006, down from 4.4 percent the previous year. Operating profit (before taxes) was unchanged at 2.8 percent. Return on assets and return on net worth both declined to reverse a three-year period of improvement.

Sales per customer increased, largely due to the fact home centers captured less business from consumers. Home center retailers continue to pursue more sales from contractors and commercial/industrial accounts. Annual customer count was flat for the typical home center but increased significantly for the high-profit stores.

On a bright note, gross margins climbed nearly 3 points for the typical stores (declining slightly for high-profit stores). However, these gains were offset by increased payroll and other operating expenses.

A negative trend emerged in profitability ratios for the typical stores as inventory turnover dropped from 3.4 to 2.6, sales to inventory declined a full point and GMROI (gross margin return on inventory) decreased 18 percentage points. High-profit stores held steady with inventory turnover but experienced declines in the other two profitability ratios.

The typical home center employed 23 workers, up from 20.5 the previous year, which helped account for sales per employee dropping 4 percent. Accounts receivable and accounts payable both declined, but more worrisome was the fact long-term liabilities went up more than two percentage points.

With home centers now generating only 45 percent of sales from cash transactions it's not surprising to see the average collection period rose from 49.1 to 51.7 days while the cash cycle rose from 128.8 to 159.1 days.

Although return on assets decreased for the high-profit stores, they still posted a figure (22.9 percent) that was nearly four times better than the typical stores. The difference in return on net worth was also nearly four times (35.1 compared to 9.4 percent).

A net operating profit difference of 3.7 points reflects the fact high-profit stores did a much better job controlling expenses since margins were roughly the same between high-profit and typical stores.

High-profit stores outperformed typical stores by a wide margin in inventory turnover, sales to inventory, GMROI, inventory holding period, cash cycle and sales per employee.

LUMBER/BUILDING MATERIALS OUTLETS

Definition: Lumber/building materials outlets capture the majority of their sales from lumber and building materials and have salesfloors less than 10,000 square feet.

Lumber and building materials (LBM) outlets also reported slow growth (1.0 percent) in 2006, which is better than no growth reported the previous year. Although LBM retailers were not pursuing more consumer business, they did rely less on commercial accounts.

The profitability picture was mixed as return on assets declined while return on net worth increased slightly. Profit before taxes went up from 2.0 to 2.1 percent for the typical stores, who also saw margins rise from 24.2 to 25.9 percent.

LBM retailers saw inventory turns decline from 4.5 to 3.8 while GMROI dropped 10 points. Sales and margin per square foot both increased, as did inventory per square foot. Cash cycle was unchanged while the average collection period went from 46.2 to 48.5 days.

LBM retailers reported more employees, which corresponded with a steep decline in sales per employee and margin per employee. Total payroll expenses increased from 14.0 to 14.8 percent.

Although high-profit LBM stores saw customer counts go up, the average transaction dropped significantly from $163 to $109. It should be pointed out that a smaller sample size for LBM stores makes some trends more pronounced. Annual customer count and average transaction size did not differ much between high-profit and typical LBM stores in 2006.

Return on assets and return on net worth were more than three times greater for high-profit LBM stores, a trend that held true when comparing profit before taxes. High-profit stores actually generated smaller margins than typical stores but posted a significantly smaller level of operating expenses (17.4 percent compared to 24.5 percent).

High-profit LBM stores greatly outperformed typical stores in inventory turnover, sales to inventory, GMROI, average collection period, sales per square foot, gross margin per square foot, sales per employee and gross margin per employee—all the key profitability and productivity ratios.

Also of note is the fact high-profit LBM stores reported long-term liabilities of 8.6 percent, half the rate posted by typical stores (17.4 percent).

How to Use the Cost of Doing Business Study to Improve Profitability

The *Cost of Doing Business Study* presents financial and operational data that retailers can use to evaluate their own businesses and plan strategic changes. Here are ways to use the information in this report effectively.

- Determine your expenses as a percent of sales and calculate your balance sheet as a percent of total assets. Compare your numbers to the study results for both typical and high-profit stores.
- Don't look at percentages alone. Compare your real-dollar expenditures as well. For example, high-profit hardware stores spend 1.1 percent of sales on group insurance, while the typical store spends 1.4 percent. In reality, however, both spend about $17,000.
- Key profitability and productivity measurements are summarized on page 4, showing comparisons between typical and high-profit stores. The definitions of terms and ratios, beginning on page 24, also provide additional guidelines and benchmarks.
- Compare your numbers to stores of a similar size. Don't limit your comparison to one type of store. Defining hardware stores, home centers and lumber outlets is practical for statistical purposes, but your store may have attributes of more than one type.
- When your numbers differ significantly, determine the cause. There may be legitimate reasons why your numbers differ. In most cases, however, you should develop a plan to bring your numbers more in line with high-profit stores.
- It is almost impossible to cut your way to profitability. Too many retailers make that mistake and drive down their sales as an unpleasant result. Instead look to reallocate assets, particularly underperforming inventory.
- An improvement plan should not focus on one or two factors, but should be developed with the entire business in mind—forecast sales, project expenses, estimate gross margins and calculate potential profit.
- Although high profits have little to do with size, sales growth is one of the keys to profitability. Remember, there are basically four ways to generate additional revenue—traffic count, closure rate, transaction size and margins.

Traffic count is the number of people that enter a store. It is the number of opportunities to create a sale. Factors that influence traffic count are advertising, location and image.

Closure rate is selling something to a customer. How often does a customer get away without making a purchase? Factors that influence closure rate are merchandising, pricing and service.

Transaction size is the number of items purchased on a single shopping trip. Project sales, add-on sales and impulse purchases are driven by such factors as attentive salespeople, signage and merchandising.

Margins bring in more revenue by selectively increasing prices and require a strategy that incorporates pricing by competitors, consumers' perceptions of pricing and customers' knowledge of item prices. Increasing storewide margins requires a skillful variable pricing system.

- Many high-profit stores with low sales volumes (less than $1 million per unit) power their success by focusing on customer counts. These convenience-oriented stores also look for ways to boost margins and operate on fewer assets.
- Stores in the $2 million to $4 million range should focus on salesfloor productivity targeting $200 to $300 in sales per square foot.
- High-profit super hardware stores with more than $4 million in annual sales generate profits by posting strong transaction sizes.

KEY PROFITABILITY AND PRODUCTIVITY MEASUREMENTS

Financial and operational profitability and productivity come from skilled management of investments in inventory and people. This chart compares the performance of typical and high-profit hardware stores, home centers and lumber/building materials (LBM) outlets in key areas of profitability and productivity. Use it to evaluate your own store's performance.

	HARDWARE STORES		HOME CENTERS		LBM OUTLETS	
	Typical	High-Profit	Typical	High-Profit	Typical	High-Profit
Gross Margin After Rebate	41.1%	43.6%	32.2%	32.0%	25.9%	23.3%
Operating Expense	39.5%	35.8%	29.8%	25.9%	24.5%	17.4%
Inventory Turnover	1.9x	2.6x	2.6x	4.0x	3.8x	4.7x
Gross Margin Return on Inventory (GMROI)	130.0%	198.1%	124.5%	186.8%	133.4%	143.0%
Average Collection Period (Days)	43.2	32.6	51.7	49.9	48.5	35.4
Selling Area (Square Feet)	8,000	8,000	14,000	15,000	7,400	6,000
Total Area (Square Feet)	10,000	10,000	33,400	38,000	29,500	26,500
Sales per Square Foot (Selling Area)	$145	$194	$328	$442	$680	$957
Inventory per Square Foot (Selling Area)	$46	$43	$85	$76	$132	$156
Sales per Full-Time Equivalent Employee	$136,160	$163,647	$199,571	$240,828	$239,670	$328,136
Consumer Sales	78%	80%	49%	40%	25%	27%
Sales per Customer	$15	$16	$45	$41	$101	$109
Return on Assets (Pre-tax)	5.8%	24.1%	5.9%	22.9%	4.9%	17.5%
Return on Net Worth (Pre-tax)	10.1%	34.3%	9.4%	35.1%	8.3%	24.8%
Current Ratio	5.2x	7.2x	4.0x	3.6x	3.3x	3.8x
Quick Asset Ratio	0.7x	1.4x	1.1x	1.4x	1.3x	1.5x
Debt to Equity	0.8x	0.4x	0.6x	0.5x	0.7x	0.4x

STRATEGIC PROFIT MODEL

The Strategic Profit Model combines the principle elements of the income statement and balance sheet in a profit planning equation. It helps retailers evaluate operational performance in terms of the most important criteria: return on net worth. Using financial ratio analysis, the model clearly identifies three operational areas that affect return on net worth: profit margin, asset turnover and financial leverage. This worksheet compares your financial results with the typical store and targets that were established either by industry standards or the performance of the top retailers.

	Profit Margin (pre-tax)	X	Asset Turnover	=	Return on Assets (pre-tax)	X	Financial Leverage	=	Return on Net Worth (pre-tax)
	This is the most important path to profitability. Managers can increase sales, decrease cost of goods sold and improve gross margins. While there is little management can do to control many expenses, a careful review of each expense line may reveal potential cost-saving areas. Refer to the benchmarks set by high-profit stores to develop targets.		*Asset turnover reflects the sales the firm produces per dollar invested in assets. It is calculated by dividing net sales by total assets. The key areas to focus on for immediate impact are managing inventory investments and controlling accounts receivables. While a high ratio indicates a good use of resources, a ratio too high can be a warning that a company is stretching its resources too far. A good target is 2.5x.*		*This ratio measures the utilization of assets to produce profits and is a good indicator of a company's ability to survive and prosper. Higher percentages are generally considered positive, but excessive numbers may indicate too few assets and the potential for financial strain. A minimum standard is 5 percent, a typical target is 10 percent and a very good ratio is 20 percent.*		*By dividing total assets by net worth, managers can gauge their reliance on outside financing. A standard target is 1.5 or more. However, too high a number may mean the business is acting too conservatively and not realizing its full potential.*		*Companies must earn an adequate return to satisfy the owner's needs. Minimum standards are about 10 percent. A good target is 20 percent, and a very good business will generate a 40 percent return.*
Typical Hardware Store	2.9%		2.0		5.8%		1.8		10.1%
High-Profit Hardware Store	8.9%		2.7		24.1%		1.4		34.3%
Typical Home Center	2.8%		2.1		5.9%		1.6		9.4%
High-Profit Home Center	8.2%		2.8		22.9%		1.5		35.1%
Typical LBM Outlet	2.1%		2.4		4.9%		1.7		8.3%
High-Profit LBM Outlet	6.1%		2.9		17.5%		1.4		24.8%

FINANCIAL STATEMENTS

	HARDWARE STORES		HOME CENTERS		LBM OUTLETS	
	Typical	High-Profit	Typical	High-Profit	Typical	High-Profit
Number of Firms Reporting	**491**	**124**	**82**	**21**	**70**	**17**
Typical Sales Volume	**$1,157,356**	**$1,554,649**	**$4,590,136**	**$6,622,778**	**$5,033,061**	**$5,742,385**
Sales Growth (2006 vs. 2005)	**0.9%**	**0.9%**	**1.1%**	**1.4%**	**1.0%**	**0.8%**
INCOME STATEMENT						
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	60.3%	57.9%	68.7%	68.6%	74.7%	77.1%
Gross Margin Before Rebate	**39.7%**	**42.1%**	**31.3%**	**31.4%**	**25.3%**	**22.9%**
Purchase Rebate	1.4%	1.5%	0.9%	0.6%	0.6%	0.4%
Gross Margin After Rebate	**41.1%**	**43.6%**	**32.2%**	**32.0%**	**25.9%**	**23.3%**
Payroll Expenses						
Owners	4.3%	4.0%	2.3%	2.2%	2.3%	1.4%
Other Employees	13.5%	12.7%	12.5%	10.8%	10.0%	7.0%
Total Payroll	17.8%	16.7%	14.8%	13.0%	12.3%	8.4%
Taxes	1.6%	1.5%	1.4%	1.2%	1.2%	0.7%
Group Insurance (Medical, etc.)	1.4%	1.1%	1.0%	0.8%	0.9%	0.5%
Benefit Plans (Pension, etc.)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Total Payroll Expenses	**21.2%**	**19.7%**	**17.6%**	**15.4%**	**14.8%**	**10.0%**
Occupancy Expenses						
Utilities	1.2%	1.0%	0.6%	0.6%	0.3%	0.2%
Building Repairs	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Rent	4.5%	4.2%	1.9%	2.0%	1.5%	1.4%
Total Occupancy Expenses	**6.0%**	**5.5%**	**2.8%**	**2.9%**	**2.1%**	**1.9%**
Other Operating Expenses						
Advertising & Promotion	2.5%	2.3%	1.2%	0.8%	0.6%	0.5%
Telephone	0.4%	0.4%	0.3%	0.2%	0.3%	0.2%
Insurance (Liability & Casualty)	0.9%	0.8%	0.8%	0.6%	0.6%	0.3%
Interest Expense	1.1%	0.5%	0.7%	0.4%	0.7%	0.4%
Taxes	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%
Depreciation	1.7%	1.0%	1.6%	1.4%	1.3%	1.1%
Bad Debt Losses	0.1%	0.1%	0.3%	0.2%	0.1%	0.2%
All Other Operating Expenses	5.4%	5.3%	4.2%	3.8%	3.8%	2.6%
Total Other Operating Expenses	**12.3%**	**10.6%**	**9.4%**	**7.6%**	**7.6%**	**5.5%**
Total Operating Expenses	**39.5%**	**35.8%**	**29.8%**	**25.9%**	**24.5%**	**17.4%**
Operating Profit	**1.6%**	**7.8%**	**2.4%**	**6.1%**	**1.4%**	**5.9%**
Other Income/Expenses	1.3%	1.1%	0.4%	2.1%	0.7%	0.2%
Profit Before Taxes	**2.9%**	**8.9%**	**2.8%**	**8.2%**	**2.1%**	**6.1%**
BALANCE SHEET						
Assets						
Total Current Assets	75.6%	76.8%	77.6%	82.4%	78.1%	79.5%
Investments (Stocks, Bonds, etc.)	9.9%	11.1%	8.4%	8.5%	4.8%	6.6%
Other Fixed	14.5%	12.1%	14.0%	9.1%	17.2%	13.9%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth						
Total Current Liabilities	14.5%	10.6%	19.4%	22.6%	23.5%	20.5%
Long-Term Liabilities	28.6%	19.2%	17.7%	12.0%	17.4%	8.6%
Net Worth or Owners Equity	56.9%	70.2%	62.9%	65.4%	59.1%	70.9%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

HARDWARE STORE RESULTS

	Typical Hardware Store	High-Profit Hardware Store	Single-Store Hardware Store	Multi-Store Hardware Store
RESPONDENT PROFILE				
Number of Firms Reporting	491	124	468	23
Typical Sales Volume by Firm	$1,157,356	$1,554,649	$1,139,804	$3,696,993
Typical Sales Volume per Store	$1,150,766	$1,527,590	$1,139,804	$1,848,497
Sales Growth (2006 vs. 2005)	0.9%	0.9%	0.9%	0.8%
Total Assets By Firm	$573,701	$573,268	$498,185	$1,627,531
Selling Area (Square Feet)	8,000	8,000	8,000	23,500
Total Area (Square Feet)	10,000	10,000	10,000	34,000
Annual Customer Count	74,800	97,900	73,200	111,800
Sales per Customer	$15	$16	$16	$33
Sales by Type of Customer				
Consumer	78%	80%	78%	78%
Contractor/Remodelers	11%	10%	11%	11%
Industrial/Commercial Accounts	11%	10%	11%	11%
STRATEGIC PROFIT MODEL RATIOS				
Profit Margin (pre-tax)	2.9%	8.9%	2.9%	1.6%
Asset Turnover	2.0	2.7	2.3	2.3
Return on Assets (pre-tax)	5.8%	24.1%	6.6%	3.7%
Financial Leverage	1.8	1.4	1.7	2.2
Return on Net Worth (pre tax)	10.1%	34.3%	11.6%	8.1%
INCOME STATEMENT				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	60.3%	57.9%	60.0%	61.1%
Gross Margin	**39.7%**	**42.1%**	**40.0%**	**38.9%**
Purchase Rebate	1.4%	1.5%	1.4%	1.0%
Gross Margin After Rebate	**41.1%**	**43.6%**	**41.4%**	**39.9%**
Payroll Expenses				
Owners	4.3%	4.0%	4.4%	2.0%
Other Employees	13.5%	12.7%	13.5%	16.3%
Total Payroll	17.8%	16.7%	17.9%	18.3%
Taxes	1.6%	1.5%	1.6%	1.9%
Group Insurance (Medical, etc.)	1.4%	1.1%	1.4%	1.0%
Benefit Plans (Pension, etc.)	0.4%	0.4%	0.4%	0.6%
Total Payroll	**21.2%**	**19.7%**	**21.3%**	**21.8%**
Occupancy Expenses				
Utilities	1.2%	1.0%	1.2%	0.9%
Building Repairs	0.3%	0.3%	0.4%	0.4%
Rent	4.5%	4.2%	4.5%	4.2%
Total Occupancy	**6.0%**	**5.5%**	**6.1%**	**5.5%**
Other Operating Expenses				
Advertising & Promotion	2.5%	2.3%	2.6%	2.7%
Telephone	0.4%	0.4%	0.4%	0.3%
Insurance (Liability & Casualty)	0.9%	0.8%	0.9%	0.6%
Interest Expense	1.1%	0.5%	1.2%	0.8%
Taxes	0.2%	0.2%	0.2%	0.2%
Depreciation	1.7%	1.0%	1.7%	1.9%
Bad Debt Losses	0.1%	0.1%	0.1%	0.1%
All Other Operating Expenses	5.4%	5.3%	5.2%	5.6%
Total Other Operating Expenses	**12.3%**	**10.6%**	**12.3%**	**12.2%**
Total Operating Expense	**39.5%**	**35.8%**	**39.7%**	**39.5%**
Operating Profit	**1.6%**	**7.8%**	**1.7%**	**0.4%**
Other Income/Expenses	1.3%	1.1%	1.2%	1.2%
Profit Before Taxes	**2.9%**	**8.9%**	**2.9%**	**1.6%**

HARDWARE STORE RESULTS

	Typical Hardware Store	High-Profit Hardware Store	Single-Store Hardware Store	Multi-Store Hardware Store
BALANCE SHEET				
Asset				
Cash	4.2%	9.0%	4.3%	3.9%
Accounts Receivable	6.0%	6.0%	5.9%	7.9%
Inventory	63.8%	59.7%	63.9%	59.1%
Other Current	1.6%	2.1%	1.6%	4.1%
Total Current Assets	75.6%	76.8%	75.7%	75.0%
Investments (Stocks, Bonds, etc.)	9.9%	11.1%	10.0%	8.0%
Other Fixed	14.5%	12.1%	14.3%	17.0%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Accounts Payable	9.2%	6.9%	9.1%	9.7%
Other Current Liabilities	5.3%	3.7%	5.1%	10.1%
Total Current Liabilities	14.5%	10.6%	14.2%	19.8%
Long Term Liabilities	28.6%	19.2%	28.6%	35.2%
Net Worth or Owner Equity	56.9%	70.2%	57.2%	45.0%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS				
Current Ratio	5.2	7.2	5.3	3.8
Quick Ratio	0.7	1.4	0.7	0.6
Cash to Current Liabilities	29.2%	84.5%	30.2%	19.9%
Accounts Payable to Inventory	14.5%	11.5%	14.2%	16.5%
Defensive Interval (Days)	20.3	34.7	18.0	16.6
Debt Equity	0.8	0.4	0.7	1.2
ACTIVITY/PROFITABILITY RATIOS				
Inventory Turnover	1.9	2.6	2.1	2.3
Sales to Inventory	3.2	4.5	3.6	3.8
Gross Margin Return on Inventory	130.0%	198.1%	148.3%	153.5%
Sales to Working Capital	3.3	4.1	3.7	4.1
Times Interest Earned	3.5	18.4	3.5	3.0
EBIT to Total Assets	8.1%	25.5%	9.3%	5.5%
CASH CYCLE				
Cash Sales %	75%	75%	75%	75%
Average Collection Period (Days)	43.2	32.6	38.0	51.0
Inventory Holding Period (Days)	195.8	142.5	173.9	157.9
Gross Cash Flow	239.1	175.1	211.8	208.9
Accounts Payable to Payout Period	28.4	16.4	24.8	26.0
Cash Cycle	210.7	158.7	187.1	182.9
SQUARE FOOTAGE PRODUCTIVITY				
Selling Area (Square Feet)	8,000	8,000	8,000	23,500
Sales per Square Foot (Selling Area)	$145	$194	$142	$157
Gross Margin per Square Foot (Selling Area)	$59	$85	$59	$63
Inventory per Square Foot (Selling Area)	$46	$43	$40	$41
Total Area (Square Feet)	10,000	10,000	10,000	34,000
Rent per Square Foot (Total Area)	$5.20	$6.48	$5.19	$4.54
EMPLOYEE PRODUCTIVITY RATIOS				
Number of Employees (FTE)	8.5	9.5	8.5	22.0
Sales per Employee	$136,160	$163,647	$134,095	$168,045
Gross Margin Per Employee	$55,946	$71,364	$55,517	$67,070
Salary Per Employee	$24,241	$27,278	$23,949	$31,859
Payroll Per Employee (including benefits)	$28,900	$32,298	$28,552	$37,703

HARDWARE STORES BY SALES VOLUME

	Hardware Store Under $500,000	Hardware Store $500,000 - $1 Million	Hardware Store $1 - $2 Million	Hardware Store Over $2 Million
RESPONDENT PROFILE				
Number of Firms Reporting	66	141	163	121
Typical Sales Volume by Firm	$350,456	$743,799	$1,403,703	$2,967,345
Typical Sales Volume per Store	$350,456	$742,777	$1,403,703	$2,670,407
Sales Growth (2006 vs. 2005)	1.0%	1.0%	1.0%	1.0%
Total Assets By Firm	$238,945	$410,739	$601,966	$1,167,353
Selling Area (Square Feet)	4,800	6,000	9,000	12,000
Total Area (Square Feet)	6,400	8,500	11,500	17,800
Annual Customer Count	28,800	53,400	86,500	157,400
Sales per Customer	$12	$14	$16	$19
Sales by Type of Customer				
Consumer	78%	78%	80%	80%
Contractor/Remodelers	11%	11%	10%	10%
Industrial/Commercial Accounts	11%	11%	10%	10%
STRATEGIC PROFIT MODEL RATIOS				
Profit Margin (pre-tax)	2.2%	2.0%	3.5%	3.7%
Asset Turnover	1.5	1.8	2.3	2.5
Return on Assets (pre-tax)	3.2%	3.7%	8.2%	9.5%
Financial Leverage	2.0	2.0	1.7	1.6
Return on Net Worth (pre tax)	6.3%	7.3%	14.2%	15.1%
INCOME STATEMENT				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	64.2%	61.1%	59.4%	58.8%
Gross Margin	**35.8%**	**38.9%**	**40.6%**	**41.2%**
Purchase Rebate	1.7%	1.5%	1.5%	1.3%
Gross Margin After Rebate	**37.5%**	**40.4%**	**42.1%**	**42.5%**
Payroll Expenses				
Owners	6.1%	5.2%	3.8%	3.1%
Other Employees	9.8%	13.4%	14.0%	16.0%
Total Payroll	15.9%	18.6%	17.8%	19.1%
Taxes	1.3%	1.5%	1.6%	1.8%
Group Insurance (Medical, etc.)	1.3%	1.3%	1.3%	1.4%
Benefit Plans (Pension, etc.)	0.3%	0.3%	0.4%	0.4%
Total Payroll	**18.8%**	**21.7%**	**21.1%**	**22.7%**
Occupancy Expenses				
Utilities	1.8%	1.3%	1.2%	1.1%
Building Repairs	0.2%	0.2%	0.3%	0.4%
Rent	3.3%	4.0%	5.2%	4.6%
Total Occupancy	**5.3%**	**5.5%**	**6.7%**	**6.1%**
Other Operating Expenses				
Advertising & Promotion	2.4%	2.7%	2.5%	2.2%
Telephone	0.7%	0.4%	0.4%	0.3%
Insurance (Liability & Casualty)	1.4%	1.1%	0.8%	0.7%
Interest Expense	1.7%	1.5%	1.0%	0.9%
Taxes	0.3%	0.2%	0.3%	0.3%
Depreciation	1.4%	1.5%	1.7%	1.6%
Bad Debt Losses	0.1%	0.1%	0.1%	0.0%
All Other Operating Expenses	5.0%	5.0%	5.4%	4.8%
Total Other Operating Expenses	**13.0%**	**12.5%**	**12.2%**	**10.8%**
Total Operating Expense	**37.1%**	**39.7%**	**40.0%**	**39.7%**
Operating Profit	**0.4%**	**0.7%**	**2.1%**	**2.8%**
Other Income/Expenses	1.8%	1.3%	1.4%	0.9%
Profit Before Taxes	**2.2%**	**2.0%**	**3.5%**	**3.7%**

HARDWARE STORES BY SALES VOLUME

	Hardware Store Under $500,000	Hardware Store $500,000 - $1 Million	Hardware Store $1 - $2 Million	Hardware Store Over $2 Million
BALANCE SHEET				
Assets				
Cash	4.2%	4.2%	5.1%	6.6%
Accounts Receivable	5.8%	5.9%	6.0%	7.3%
Inventory	67.5%	64.5%	62.6%	56.3%
Other Current	0.7%	0.8%	2.3%	2.0%
Total Current Assets	78.2%	75.4%	76.0%	72.2%
Investments (Stocks, Bonds, etc.)	11.3%	11.1%	10.0%	11.4%
Other Fixed	10.5%	13.5%	14.0%	16.4%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Accounts Payable	7.3%	7.7%	9.0%	11.7%
Other Current Liabilities	5.3%	4.2%	4.9%	9.4%
Total Current Liabilities	12.6%	11.9%	13.9%	21.1%
Long Term Liabilities	36.8%	37.8%	28.6%	15.8%
Net Worth or Owner Equity	50.6%	50.3%	57.5%	63.1%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS				
Current Ratio	6.2	6.3	5.5	3.4
Quick Ratio	0.8	0.8	0.8	0.7
Cash to Current Liabilities	33.4%	35.0%	37.1%	31.2%
Accounts Payable to Inventory	10.8%	12.0%	14.4%	20.7%
Defensive Interval (Days)	28.8	22.1	21.0	24.9
Debt Equity	1.0	1.0	0.7	0.6
ACTIVITY/PROFITABILITY RATIOS				
Inventory Turnover	1.4	1.7	2.2	2.6
Sales to Inventory	2.2	2.8	3.7	4.5
Gross Margin Return on Inventory	81.6%	113.5%	156.8%	191.7%
Sales to Working Capital	2.2	2.9	3.8	5.0
Times Interest Earned	2.2	2.4	4.4	5.4
EBIT to Total Assets	5.7%	6.4%	10.6%	11.7%
CASH CYCLE				
Cash Sales %	73%	70%	78%	80%
Average Collection Period (Days)	53.4	39.5	42.3	52.2
Inventory Holding Period (Days)	268.9	218.0	169.0	140.5
Gross Cash Flow	322.3	257.5	211.3	192.7
Accounts Payable to Payout Period	29.1	26.2	24.3	29.1
Cash Cycle	293.2	231.3	187.0	163.6
SQUARE FOOTAGE PRODUCTIVITY				
Selling Area (Square Feet)	4,800	6,000	9,000	12,000
Sales per Square Foot (Selling Area)	$73	$124	$156	$247
Gross Margin per Square Foot (Selling Area)	$27	$50	$66	$105
Inventory per Square Foot (Selling Area)	$34	$44	$42	$55
Total Area (Square Feet)	6,400	8,500	11,500	17,800
Rent per Square Foot (Total Area)	$1.80	$3.47	$6.40	$7.62
EMPLOYEE PRODUCTIVITY RATIOS				
Number of Employees (FTE)	3.5	6.0	10.0	19.5
Sales per Employee	$100,130	$123,967	$140,370	$152,172
Gross Margin Per Employee	$37,579	$50,094	$59,025	$64,599
Salary Per Employee	$15,811	$23,000	$25,063	$29,155
Payroll Per Employee (including benefits)	$18,830	$26,903	$29,649	$34,614

HARDWARE STORES – HISTORICAL TRENDS

	2002	2003	2004	2005	2006
RESPONDENT PROFILE					
Number of Firms Reporting	610	603	490	608	491
Typical Sales Volume by Firm	$1,187,241	$1,169,035	$1,179,559	$1,290,226	$1,157,356
Typical Sales Volume per Store	$1,144,846	$1,152,677	$1,093,089	$1,270,839	1,150,766
Sales Growth (vs. Previous Year)	1.1%	2.1%	1.1%	1.0%	0.9%
Total Assets By Firm	$546,979	$555,281	$561,888	$601,996	$573,701
Selling Area (Square Feet)	8,000	8,025	8,450	8,555	8,000
Total Area (Square Feet)	12,000	11,625	11,650	12,000	10,000
Annual Customer Count	72,400	69,032	67,678	88,514	74,800
Sales per Customer	$16	$17	$17	$15	$15
Sales by Type of Customer					
Consumer	78%	78%	78%	78%	78%
Contractor/Remodelers	11%	11%	11%	11%	11%
Industrial/Commercial Accounts	11%	11%	11%	11%	11%
STRATEGIC PROFIT MODEL RATIOS					
Profit Margin (pre-tax)	2.5%	2.5%	2.3%	2.9%	2.9%
Asset Turnover	2.2	2.1	2.1	2.1	2.0
Return on Assets (pre-tax)	5.4%	5.2%	4.9%	6.1%	5.8%
Financial Leverage	1.6	1.7	1.7	1.5	1.8
Return on Net Worth (pre tax)	8.7%	8.6%	8.6%	9.5%	10.1%
INCOME STATEMENT					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	60.1%	60.6%	59.6%	60.1%	60.3%
Gross Margin	**39.9%**	**39.4%**	**40.4%**	**39.9%**	**39.7%**
Purchase Rebate	0.2%	0.7%	0.7%	1.3%	1.4%
Gross Margin After Rebate	**40.1%**	**40.1%**	**41.1%**	**41.2%**	**41.1%**
Payroll Expenses					
Owners	3.8%	3.3%	4.1%	4.3%	4.3%
Other Employees	15.5%	15.9%	15.4%	15.1%	13.5%
Total Payroll	19.3%	19.2%	19.5%	19.4%	17.8%
Taxes	1.7%	1.7%	1.6%	1.7%	1.6%
Group Insurance (Medical, etc.)	0.9%	0.9%	0.9%	1.0%	1.4%
Benefit Plans (Pension, etc.)	0.0%	0.0%	0.0%	0.1%	0.4%
Total Payroll	**21.9%**	**21.8%**	**22.1%**	**22.2%**	**21.2%**
Occupancy Expenses					
Utilities	1.1%	1.1%	1.3%	1.1%	1.2%
Building Repairs	0.3%	0.2%	0.2%	0.3%	0.3%
Rent	4.2%	4.3%	4.4%	4.3%	4.5%
Total Occupancy	**5.6%**	**5.6%**	**5.8%**	**5.8%**	**6.0%**
Other Operating Expenses					
Advertising & Promotion	2.6%	2.5%	2.6%	2.4%	2.5%
Telephone	0.4%	0.4%	0.4%	0.4%	0.4%
Insurance (Liability & Casualty)	0.7%	0.9%	0.9%	0.7%	0.9%
Interest Expense	0.8%	0.9%	0.7%	1.0%	1.1%
Taxes	0.1%	0.2%	0.2%	0.2%	0.2%
Depreciation	1.2%	1.5%	1.6%	1.4%	1.7%
Bad Debt Losses	0.0%	0.0%	0.0%	0.1%	0.1%
All Other Operating Expenses	5.1%	4.8%	5.5%	5.4%	5.4%
Total Other Operating Expenses	**10.9%**	**11.2%**	**11.9%**	**11.6%**	**12.3%**
Total Operating Expense	**38.4%**	**38.6%**	**39.8%**	**39.5%**	**39.5%**
Operating Profit	**1.7%**	**1.5%**	**1.3%**	**1.7%**	**1.6%**
Other Income/Expenses	0.8%	1.0%	1.0%	1.2%	1.3%
Profit Before Taxes	**2.5%**	**2.5%**	**2.3%**	**2.9%**	**2.9%**

HARDWARE STORES – HISTORICAL TRENDS

	2002	2003	2004	2005	2006
BALANCE SHEET					
Assets					
Cash	5.3%	5.4%	4.9%	5.0%	4.2%
Accounts Receivable	7.0%	6.2%	6.4%	6.3%	6.0%
Inventory	66.3%	66.6%	65.9%	61.9%	63.8%
Other Current	1.1%	0.8%	0.7%	1.9%	1.6%
Total Current Assets	79.7%	79.0%	78.0%	75.1%	75.6%
Investments (Stocks, Bonds, etc.)	9.7%	8.3%	9.9%	11.7%	9.9%
Other Fixed	10.6%	12.7%	12.1%	13.2%	14.5%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Accounts Payable	14.6%	11.0%	11.3%	10.7%	9.2%
Other Current Liabilities	6.2%	5.8%	8.3%	7.3%	5.3%
Total Current Liabilities	20.8%	16.8%	19.5%	17.9%	14.5%
Long Term Liabilities	17.0%	22.6%	23.1%	17.4%	28.6%
Net Worth or Owner Equity	62.2%	60.6%	57.4%	64.6%	56.9%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS					
Current Ratio	3.8	4.7	4.0	4.2	5.2
Quick Ratio	0.6	0.7	0.6	0.6	0.7
Cash to Current Liabilities	25.5%	32.3%	25.2%	27.9%	29.2%
Accounts Payable to Inventory	22.0%	16.5%	17.1%	17.3%	14.5%
Defensive Interval (Days)	24.0	25.3	22.4	22.4	20.3
Debt Equity	0.6	0.7	0.7	0.5	0.8
ACTIVITY/PROFITABILITY RATIOS					
Inventory Turnover	2.0	1.9	1.9	2.0	1.9
Sales to Inventory	3.3	3.2	3.2	3.5	3.2
Gross Margin Return on Inventory	131.3%	126.7%	130.9%	142.7%	130.0%
Sales to Working Capital	3.7	3.4	3.6	3.7	3.3
Times Interest Earned	4.1	3.9	4.2	4.0	3.5
EBIT to Total Assets	7.2%	7.0%	6.5%	8.2%	8.1%
CASH CYCLE					
Cash Sales %	74%	75%	75%	75%	75%
Average Collection Period (Days)	45.3	42.9	44.6	42.9	43.2
Inventory Holding Period (Days)	185.5	192.9	194.6	179.1	195.8
Gross Cash Flow	230.8	235.8	239.3	222.0	239.1
Accounts Payable to Payout Period	40.9	31.8	33.3	30.9	28.4
Cash Cycle	189.9	204.0	205.9	191.1	210.7
SQUARE FOOTAGE PRODUCTIVITY					
Selling Area (Square Feet)	8,000	8,025	8,450	8,555	8,000
Sales per Square Foot (Selling Area)	$148	$146	$140	$151	$145
Gross Margin per Square Foot (Selling Area)	$60	$58	$57	$62	$59
Inventory per Square Foot (Selling Area)	$45	$46	$44	$44	$46
Total Area (Square Feet)	12,000	11,625	11,650	12,000	10,000
Rent per Square Foot (Total Area)	$4.16	$4.30	$4.41	$4.65	$5.20
EMPLOYEE PRODUCTIVITY RATIOS					
Number of Employees (FTE)	9.0	9.0	9.0	9.0	8.5
Sales per Employee	$131,916	129,893	$131,062	$143,358	$136,160
Gross Margin Per Employee	$52,898	$52,089	$53,881	$59,038	$55,946
Salary Per Employee	$25,460	$24,935	$25,553	$27,832	$24,241
Payroll Per Employee (including benefits)	$28,890	$28,281	$28,928	$31,780	$28,900

HOME CENTER RESULTS

	Typical Home Center	High-Profit Home Center	Single-Store Home Center	Multi-Store Home Center
RESPONDENT PROFILE				
Number of Firms Reporting	82	21	67	15
Typical Sales Volume by Firm	$4,590,136	$6,622,778	$4,241,871	$19,000,000
Typical Sales Volume per Store	$4,179,306	$6,468,855	$4,241,871	$3,879,878
Sales Growth (2006 vs. 2005)	1.1%	1.4%	0.9%	1.8%
Total Assets By Firm	$2,220,262	$2,374,111	$1,972,543	$5,678,426
Selling Area (Square Feet)	14,000	15,000	12,000	44,000
Total Area (Square Feet)	33,400	38,000	25,000	120,000
Annual Customer Count	102,900	161,100	99,800	300,000
Sales per Customer	$45	$41	$43	$63
Sales by Type of Customer				
Consumer	49%	40%	51%	42%
Contractor/Remodelers	41%	50%	41%	47%
Industrial/Commercial Accounts	10%	10%	8%	11%
STRATEGIC PROFIT MODEL RATIOS				
Profit Margin (pre-tax)	2.8%	8.2%	3.1%	2.6%
Asset Turnover	2.1	2.8	2.2	3.3
Return on Assets (pre-tax)	5.9%	22.9%	6.6%	8.7%
Financial Leverage	1.6	1.5	1.5	1.9
Return on Net Worth (pre tax)	9.4%	35.1%	10.2%	16.6%
INCOME STATEMENT				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	68.7%	68.6%	69.0%	73.8%
Gross Margin	**31.3%**	**31.4%**	**31.0%**	**26.2%**
Purchase Rebate	0.9%	0.6%	0.9%	1.6%
Gross Margin After Rebate	**32.2%**	**32.0%**	**31.9%**	**27.8%**
Payroll Expenses				
Owners	2.3%	2.2%	2.3%	1.1%
Other Employees	12.5%	10.8%	12.5%	10.6%
Total Payroll	14.8%	13.0%	14.8%	11.7%
Taxes	1.4%	1.2%	1.4%	1.5%
Group Insurance (Medical, etc.)	1.0%	0.8%	1.1%	0.9%
Benefit Plans (Pension, etc.)	0.4%	0.4%	0.4%	0.4%
Total Payroll	**17.6%**	**15.4%**	**17.7%**	**14.5%**
Occupancy Expenses				
Utilities	0.6%	0.6%	0.6%	0.7%
Building Repairs	0.3%	0.3%	0.3%	0.4%
Rent	1.9%	2.0%	1.8%	1.9%
Total Occupancy	**2.8%**	**2.9%**	**2.7%**	**3.0%**
Other Operating Expenses				
Advertising & Promotion	1.2%	0.8%	1.2%	1.0%
Telephone	0.3%	0.2%	0.2%	0.3%
Insurance (Liability & Casualty)	0.8%	0.6%	0.8%	0.5%
Interest Expense	0.7%	0.4%	0.5%	1.0%
Taxes	0.3%	0.2%	0.2%	0.3%
Depreciation	1.6%	1.4%	1.5%	1.6%
Bad Debt Losses	0.3%	0.2%	0.2%	0.3%
All Other Operating Expenses	4.2%	3.8%	4.5%	3.0%
Total Other Operating Expenses	**9.4%**	**7.6%**	**9.1%**	**8.0%**
Total Operating Expense	**29.8%**	**25.9%**	**29.5%**	**25.5%**
Operating Profit	**2.4%**	**6.1%**	**2.4%**	**2.3%**
Other Income/Expenses	0.4%	2.1%	0.7%	0.3%
Profit Before Taxes	**2.8%**	**8.2%**	**3.1%**	**2.6%**

HOME CENTER RESULTS

	Typical Home Center	High-Profit Home Center	Single-Store Home Center	Multi-Store Home Center
BALANCE SHEET				
Assets				
Cash	4.7%	9.8%	5.7%	3.0%
Accounts Receivable	16.1%	22.9%	14.5%	22.5%
Inventory	53.5%	47.8%	54.3%	52.7%
Other Current	3.3%	1.9%	3.4%	1.9%
Total Current Assets	77.6%	82.4%	77.9%	80.1%
Investments (Stocks, Bonds, etc.)	8.4%	8.5%	8.5%	6.9%
Other Fixed	14.0%	9.1%	13.6%	13.0%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Accounts Payable	12.3%	11.1%	11.5%	18.5%
Other Current Liabilities	7.1%	11.5%	6.4%	10.9%
Total Current Liabilities	19.4%	22.6%	17.9%	29.4%
Long Term Liabilities	17.7%	12.0%	17.1%	18.1%
Net Worth or Owner Equity	62.9%	65.4%	64.9%	52.5%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS				
Current Ratio	4.0	3.6	4.3	2.6
Quick Ratio	1.1	1.4	1.1	0.8
Cash to Current Liabilities	24.2%	43.6%	32.0%	9.5%
Accounts Payable to Inventory	23.0%	23.1%	21.2%	35.1%
Defensive Interval (Days)	29.3	52.9	34.7	13.4
Debt Equity	0.6	0.5	0.5	0.9
ACTIVITY/PROFITABILITY RATIOS				
Inventory Turnover	2.6	4.0	2.7	4.6
Sales to Inventory	3.9	5.8	4.0	6.3
Gross Margin Return on Inventory	124.5%	186.8%	126.4%	176.5%
Sales to Working Capital	3.6	4.7	3.6	6.8
Times Interest Earned	5.2	22.3	6.6	3.6
EBIT to Total Assets	7.3%	24.0%	7.8%	12.0%
CASH CYCLE				
Cash Sales %	45%	40%	50%	25%
Average Collection Period (Days)	51.7	49.9	49.0	32.7
Inventory Holding Period (Days)	139.4	91.9	135.5	79.7
Gross Cash Flow	191.2	141.8	184.5	112.4
Accounts Payable to Payout Period	32.0	21.3	28.7	28.0
Cash Cycle	159.1	120.5	155.8	84.4
SQUARE FOOTAGE PRODUCTIVITY				
Selling Area (Square Feet)	14,000	15,000	12,000	44,000
Sales per Square Foot (Selling Area)	$328	$442	$353	$432
Gross Margin per Square Foot (Selling Area)	$106	$141	$113	$120
Inventory per Square Foot (Selling Area)	$85	$76	$89	$68
Total Area (Square Feet)	33,400	38,000	25,000	120,000
Rent per Square Foot (Total Area)	$2.62	$3.55	$3.18	$3.02
EMPLOYEE PRODUCTIVITY RATIOS				
Number of Employees (FTE)	23.0	27.5	22.5	72.0
Sales per Employee	$199,571	$240,828	$188,528	$263,889
Gross Margin Per Employee	$64,327	$77,038	$60,187	$73,393
Salary Per Employee	$29,460	$31,460	$27,859	$30,974
Payroll Per Employee (including benefits)	$35,129	$37,195	$33,275	$38,375

HOME CENTERS BY SALES VOLUME

	Home Center Under $2 Million	Home Center $2 - $3 Million	Home Center $3 - $6 Million	Home Center Over $6 Million
RESPONDENT PROFILE				
Number of Firms Reporting	10	13	27	32
Typical Sales Volume by Firm	$1,550,974	$2,695,859	$4,116,741	$10,511,456
Typical Sales Volume per Store	$1,550,974	$2,690,738	$4,073,678	$8,184,671
Sales Growth (2006 vs. 2005)	1.1%	1.1%	1.0%	1.0%
Total Assets By Firm	$755,823	$1,215,961	$1,972,543	$4,454,869
Selling Area (Square Feet)	7,600	14,700	12,000	25,300
Total Area (Square Feet)	16,800	21,500	35,000	52,300
Annual Customer Count	50,000	80,900	84,300	217,400
Sales per Customer	$31	$33	$49	$48
Sales by Type of Customer				
Consumer	57%	69%	41%	46%
Contractor/Remodelers	33%	26%	49%	48%
Industrial/Commercial Accounts	10%	5%	10%	5%
STRATEGIC PROFIT MODEL RATIOS				
Profit Margin (pre-tax)	2.1%	1.5%	3.6%	3.5%
Asset Turnover	2.1	2.2	2.1	2.4
Return on Assets (pre-tax)	4.3%	3.3%	7.5%	8.3%
Financial Leverage	1.4	1.8	1.5	1.6
Return on Net Worth (pre tax)	6.1%	6.0%	11.4%	13.1%
INCOME STATEMENT				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	69.5%	68.6%	70.4%	73.7%
Gross Margin	**30.5%**	**31.4%**	**29.6%**	**26.3%**
Purchase Rebate	0.8%	1.2%	1.0%	1.0%
Gross Margin After Rebate	**31.3%**	**32.6%**	**30.6%**	**27.3%**
Payroll Expenses				
Owners	2.1%	2.8%	2.6%	1.7%
Other Employees	10.1%	11.7%	13.0%	11.6%
Total Payroll	12.2%	14.5%	15.6%	13.3%
Taxes	1.2%	1.6%	1.4%	1.2%
Group Insurance (Medical, etc.)	1.3%	1.4%	1.1%	1.1%
Benefit Plans (Pension, etc.)	0.3%	0.4%	0.3%	0.3%
Total Payroll	**15.0%**	**17.9%**	**18.4%**	**15.9%**
Occupancy Expenses				
Utilities	0.8%	0.8%	0.4%	0.4%
Building Repairs	0.2%	0.4%	0.2%	0.3%
Rent	3.1%	2.9%	1.1%	1.5%
Total Occupancy	**4.1%**	**4.1%**	**1.7%**	**2.2%**
Other Operating Expenses				
Advertising & Promotion	1.3%	1.0%	1.1%	0.8%
Telephone	0.3%	0.3%	0.2%	0.2%
Insurance (Liability & Casualty)	1.1%	1.0%	0.7%	0.6%
Interest Expense	1.2%	0.3%	0.4%	0.3%
Taxes	0.2%	0.2%	0.2%	0.2%
Depreciation	1.0%	1.1%	1.2%	1.1%
Bad Debt Losses	0.3%	0.2%	0.2%	0.2%
All Other Operating Expenses	4.8%	5.1%	4.0%	3.2%
Total Other Operating Expenses	**10.2%**	**9.2%**	**8.0%**	**6.6%**
Total Operating Expense	**29.3%**	**31.2%**	**28.1%**	**24.7%**
Operating Profit	**2.0%**	**1.4%**	**2.5%**	**2.6%**
Other Income/Expenses	0.1%	0.1%	1.1%	0.9%
Profit Before Taxes	**2.1%**	**1.5%**	**3.6%**	**3.5%**

HOME CENTERS BY SALES VOLUME

	Home Center Under $2 Million	Home Center $2 - $3 Million	Home Center $3 - $6 Million	Home Center Over $6 Million
BALANCE SHEET				
Assets				
Cash	4.3%	5.2%	6.0%	4.3%
Accounts Receivable	12.9%	11.3%	16.5%	21.0%
Inventory	62.1%	48.7%	50.7%	46.3%
Other Current	1.6%	3.0%	2.7%	3.5%
Total Current Assets	80.9%	68.2%	75.9%	75.1%
Investments (Stocks, Bonds, etc.)	8.0%	7.6%	8.1%	7.8%
Other Fixed	11.1%	24.2%	16.0%	17.1%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Accounts Payable	6.9%	11.7%	10.8%	14.1%
Other Current Liabilities	5.3%	10.1%	4.7%	9.3%
Total Current Liabilities	12.2%	21.8%	15.5%	23.4%
Long Term Liabilities	17.8%	23.5%	18.7%	13.6%
Net Worth or Owner Equity	70.0%	54.7%	65.8%	63.0%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS				
Current Ratio	6.6	3.1	4.9	3.2
Quick Ratio	1.4	0.8	1.5	1.1
Cash to Current Liabilities	35.0%	24.0%	38.5%	18.1%
Accounts Payable to Inventory	11.1%	24.0%	21.3%	30.4%
Defensive Interval (Days)	26.7	28.5	38.8	28.1
Debt Equity	0.4	0.8	0.5	0.6
ACTIVITY/PROFITABILITY RATIOS				
Inventory Turnover	2.3	3.1	2.9	3.7
Sales to Inventory	3.3	4.6	4.1	5.1
Gross Margin Return on Inventory	103.2%	148.4%	126.0%	139.4%
Sales to Working Capital	3.0	4.8	3.5	4.6
Times Interest Earned	2.7	5.8	9.2	10.9
EBIT to Total Assets	6.8%	4.0%	8.4%	9.1%
CASH CYCLE				
Cash Sales %	64%	50%	42%	38%
Average Collection Period (Days)	63.7	37.2	49.9	52.4
Inventory Holding Period (Days)	160.9	118.8	127.9	98.4
Gross Cash Flow	224.6	156.0	177.7	150.9
Accounts Payable to Payout Period	17.9	28.5	27.2	29.9
Cash Cycle	206.6	127.5	150.5	121.0
SQUARE FOOTAGE PRODUCTIVITY				
Selling Area (Square Feet)	7,600	14,700	12,000	25,300
Sales per Square Foot (Selling Area)	$204	$183	$343	$415
Gross Margin per Square Foot (Selling Area)	$64	$60	$105	$114
Inventory per Square Foot (Selling Area)	$62	$40	$83	$81
Total Area (Square Feet)	16,800	21,500	35,000	52,300
Rent per Square Foot (Total Area)	$2.90	$3.68	$1.26	$2.90
EMPLOYEE PRODUCTIVITY RATIOS				
Number of Employees (FTE)	9.0	16.0	20.0	52.5
Sales per Employee	$172,330	$168,491	$205,837	$200,218
Gross Margin Per Employee	$53,887	$54,894	$63,039	$54,703
Salary Per Employee	$21,009	$24,636	$31,962	$26,509
Payroll Per Employee (including benefits)	$25,923	$30,196	$37,954	$31,757

HOME CENTERS - HISTORICAL TRENDS

	2002	2003	2004	2005	2006
RESPONDENT PROFILE					
Number of Firms Reporting	121	123	77	100	82
Typical Sales Volume by Firm	$4,004,917	$4,251,403	$4,092,790	$4,275,626	$4,590,136
Typical Sales Volume per Store	$3,381,268	$3,664,317	$3,243,966	$3,755,799	$4,179,306
Sales Growth (vs. Previous Year)	2.7%	3.5%	3.4%	4.4%	1.1%
Total Assets By Firm	$1,466,255	$1,761,668	$1,588,756	$1,599,299	$2,220,262
Selling Area (Square Feet)	12,000	14,300	14,000	14,000	14,000
Total Area (Square Feet)	40,000	38,000	38,650	41,000	33,400
Annual Customer Count	91,825	90,358	91,545	103,707	102,900
Sales per Customer	$44	$47	$45	$41	$45
Sales by Type of Customer					
Consumer	60%	53%	56%	59%	49%
Contractor/Remodelers	34%	37%	38%	34%	41%
Industrial/Commercial Accounts	6%	10%	6%	7%	10%
STRATEGIC PROFIT MODEL RATIOS					
Profit Margin (pre-tax)	2.6%	2.1%	2.6%	2.8%	2.8%
Asset Turnover	2.7	2.4	2.6	2.7	2.1
Return on Assets (pre-tax)	7.1%	5.0%	6.8%	7.5%	5.9%
Financial Leverage	1.8	1.6	1.6	1.6	1.6
Return on Net Worth (pre tax)	12.5%	7.8%	10.7%	11.8%	9.4%
INCOME STATEMENT					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	69.9%	70.9%	69.1%	71.8%	68.7%
Gross Margin	**30.1%**	**29.1%**	**30.9%**	**28.2%**	**31.3%**
Purchase Rebate	0.1%	0.2%	0.2%	1.1%	0.9%
Gross Margin After Rebate	**30.2%**	**29.3%**	**31.1%**	**29.3%**	**32.2%**
Payroll Expenses					
Owners	2.9%	1.8%	2.2%	2.2%	2.3%
Other Employees	12.2%	13.1%	13.1%	11.6%	12.5%
Total Payroll	15.1%	14.9%	15.3%	13.8%	14.8%
Taxes	1.2%	1.2%	1.3%	1.3%	1.4%
Group Insurance (Medical, etc.)	0.7%	0.7%	1.4%	1.2%	1.0%
Benefit Plans (Pension, etc.)	0.1%	0.1%	0.2%	0.4%	0.4%
Total Payroll	**17.1%**	**16.9%**	**18.2%**	**16.7%**	**17.6%**
Occupancy Expenses					
Utilities	0.6%	0.6%	0.6%	0.5%	0.6%
Building Repairs	0.3%	0.3%	0.2%	0.2%	0.3%
Rent	2.2%	2.1%	1.7%	2.0%	1.9%
Total Occupancy	**3.1%**	**3.0%**	**2.5%**	**2.7%**	**2.8%**
Other Operating Expenses					
Advertising & Promotion	1.2%	1.2%	1.2%	1.2%	1.2%
Telephone	0.3%	0.3%	0.3%	0.2%	0.3%
Insurance (Liability & Casualty)	0.6%	0.7%	0.8%	0.8%	0.8%
Interest Expense	0.6%	0.6%	0.6%	0.6%	0.7%
Taxes	0.2%	0.2%	0.2%	0.2%	0.3%
Depreciation	1.2%	1.4%	1.3%	1.1%	1.6%
Bad Debt Losses	0.1%	0.2%	0.1%	0.1%	0.3%
All Other Operating Expenses	3.9%	3.8%	4.2%	4.1%	4.2%
Total Other Operating Expenses	**8.1%**	**8.4%**	**8.8%**	**8.3%**	**9.4%**
Total Operating Expense	**28.3%**	**28.3%**	**29.6%**	**27.6%**	**29.8%**
Operating Profit	**1.9%**	**1.0%**	**1.5%**	**1.6%**	**2.4%**
Other Income/Expenses	0.7%	1.1%	1.1%	1.2%	0.4%
Profit Before Taxes	**2.6%**	**2.1%**	**2.6%**	**2.8%**	**2.8%**

HOME CENTERS - HISTORICAL TRENDS

	2002	2003	2004	2005	2006
BALANCE SHEET					
Assets					
Cash	5.8%	5.6%	6.7%	4.6%	4.7%
Accounts Receivable	17.7%	18.6%	19.1%	18.0%	16.1%
Inventory	53.8%	52.6%	53.1%	54.9%	53.5%
Other Current	1.4%	1.2%	0.6%	0.9%	3.3%
Total Current Assets	78.7%	78.0%	79.5%	78.5%	77.6%
Investments (Stocks, Bonds, etc.)	5.9%	5.7%	6.9%	8.6%	8.4%
Other Fixed	15.4%	16.3%	13.6%	12.9%	14.0%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Accounts Payable	10.8%	10.4%	15.7%	13.6%	12.3%
Other Current Liabilities	8.0%	7.8%	6.3%	7.1%	7.1%
Total Current Liabilities	18.8%	18.2%	22.1%	20.6%	19.4%
Long Term Liabilities	24.5%	17.4%	14.2%	15.6%	17.7%
Net Worth or Owner Equity	56.7%	64.4%	63.7%	63.8%	62.9%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS					
Current Ratio	4.2	4.3	3.6	3.8	4.0
Quick Ratio	1.3	1.3	1.2	1.1	1.1
Cash to Current Liabilities	30.9%	30.7%	30.2%	22.5%	24.2%
Accounts Payable to Inventory	20.1%	19.8%	29.9%	24.8%	23.0%
Defensive Interval (Days)	28.6	31.5	33.5	23.9	29.3
Debt Equity	0.8	0.6	0.6	0.6	0.6
ACTIVITY/PROFITABILITY RATIOS					
Inventory Turnover	3.5	3.2	3.3	3.4	2.6
Sales to Inventory	5.1	4.6	4.9	4.9	3.9
Gross Margin Return on Inventory	153.3%	134.5%	151.0%	142.4%	124.5%
Sales to Working Capital	4.6	4.0	4.5	4.6	3.6
Times Interest Earned	5.3	4.3	5.1	5.9	5.2
EBIT to Total Assets	8.7%	6.6%	8.5%	9.1%	7.3%
CASH CYCLE					
Cash Sales %	35%	35%	43%	50%	45%
Average Collection Period (Days)	36.4	43.2	47.6	49.1	51.7
Inventory Holding Period (Days)	102.9	112.6	109.1	106.1	139.4
Gross Cash Flow	139.3	155.8	156.7	155.2	191.2
Accounts Payable to Payout Period	20.6	22.3	32.4	26.3	32.0
Cash Cycle	118.7	133.5	124.3	128.9	159.1
SQUARE FOOTAGE PRODUCTIVITY					
Selling Area (Square Feet)	12,000	14,300	14,000	14,000	14,000
Sales per Square Foot (Selling Area)	$334	$297	$292	$305	$328
Gross Margin per Square Foot (Selling Area)	$101	$87	$91	$89	$106
Inventory per Square Foot (Selling Area)	$66	$65	$60	$63	$85
Total Area (Square Feet)	40,000	38,000	38,650	41,000	33,400
Rent per Square Foot (Total Area)	$2.20	$2.30	$1.83	$2.06	$2.62
EMPLOYEE PRODUCTIVITY RATIOS					
Number of Employees (FTE)	19.5	19.5	20.0	20.5	23.0
Sales per Employee	$205,380	$218,021	$204,639	$208,567	$199,571
Gross Margin Per Employee	$62,025	$63,936	$63,636	$61,051	$64,327
Salary Per Employee	$31,012	$32,591	$31,385	$28,770	$29,460
Payroll Per Employee (including benefits)	$35,120	$37,037	$37,298	$34,802	$35,129

LUMBER/BUILDING MATERIALS OUTLETS RESULTS

	Typical Lumber Outlet	High-Profit Lumber Outlet	Single-Store Lumber Outlet	Multi-Store Lumber Outlet
RESPONDENT PROFILE				
Number of Firms Reporting	70	17	58	12
Typical Sales Volume by Firm	$5,033,061	$5,742,385	$4,738,938	$14,193,867
Typical Sales Volume per Store	$4,707,751	$5,489,938	$4,738,938	$4,308,932
Sales Growth (2006 vs. 2005)	1.0%	0.8%	1.2%	0.9%
Total Assets By Firm	$2,123,617	$1,984,130	$2,874,209	$6,997,081
Selling Area (Square Feet)	7,400	6,000	5,900	25,000
Total Area (Square Feet)	29,500	26,500	23,500	92,500
Annual Customer Count	50,000	52,900	43,200	122,200
Sales per Customer	$101	$109	$110	$116
Sales by Type of Customer				
Consumer	25%	27%	26%	20%
Contractor/Remodelers	69%	67%	68%	72%
Industrial/Commercial Accounts	6%	6%	6%	8%
STRATEGIC PROFIT MODEL RATIOS				
Profit Margin (pre-tax)	2.1%	6.1%	2.2%	1.7%
Asset Turnover	2.4	2.9	1.6	2.0
Return on Assets (pre-tax)	4.9%	17.5%	3.6%	3.5%
Financial Leverage	1.7	1.4	1.7	1.7
Return on Net Worth (pre tax)	8.3%	24.8%	6.2%	5.7%
INCOME STATEMENT				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods	74.7%	77.1%	74.6%	76.6%
Gross Margin	**25.3%**	**22.9%**	**25.4%**	**23.4%**
Purchase Rebate	0.6%	0.4%	0.5%	1.4%
Gross Margin After Rebate	**25.9%**	**23.3%**	**25.9%**	**24.8%**
Payroll Expenses				
Owners	2.3%	1.4%	2.5%	2.2%
Other Employees	10.0%	7.0%	9.4%	11.0%
Total Payroll	12.3%	8.4%	11.9%	13.2%
Taxes	1.2%	0.7%	1.2%	1.1%
Group Insurance (Medical, etc.)	0.9%	0.5%	0.9%	0.8%
Benefit Plans (Pension, etc.)	0.4%	0.4%	0.6%	0.4%
Total Payroll	**14.8%**	**10.0%**	**14.6%**	**15.5%**
Occupancy Expenses				
Utilities	0.3%	0.2%	0.3%	0.3%
Building Repairs	0.3%	0.3%	0.3%	0.6%
Rent	1.5%	1.4%	1.7%	1.1%
Total Occupancy	**2.1%**	**1.9%**	**2.3%**	**2.0%**
Other Operating Expenses				
Advertising & Promotion	0.6%	0.5%	0.6%	0.8%
Telephone	0.3%	0.2%	0.2%	0.2%
Insurance (Liability & Casualty)	0.6%	0.3%	0.6%	0.7%
Interest Expense	0.7%	0.4%	0.6%	1.5%
Taxes	0.2%	0.2%	0.2%	0.1%
Depreciation	1.3%	1.1%	1.4%	0.8%
Bad Debt Losses	0.1%	0.2%	0.1%	0.1%
All Other Operating Expenses	3.8%	2.6%	3.6%	2.3%
Total Other Operating Expenses	**7.6%**	**5.5%**	**7.3%**	**6.5%**
Total Operating Expense	**24.5%**	**17.4%**	**24.2%**	**24.0%**
Operating Profit	**1.4%**	**5.9%**	**1.7%**	**0.8%**
Other Income/Expenses	0.7%	0.2%	0.5%	0.9%
Profit Before Taxes	**2.1%**	**6.1%**	**2.2%**	**1.7%**

LUMBER/BUILDING MATERIALS OUTLETS RESULTS

	Typical Lumber Outlet	High-Profit Lumber Outlet	Single-Store Lumber Outlet	Multi-Store Lumber Outlet
BALANCE SHEET				
Assets				
Cash	6.5%	9.0%	6.4%	5.0%
Accounts Receivable	23.6%	22.5%	22.1%	26.7%
Inventory	45.9%	47.2%	47.9%	40.1%
Other Current	2.0%	0.8%	2.0%	1.1%
Total Current Assets	78.1%	79.5%	78.4%	72.9%
Investments (Stocks, Bonds, etc.)	4.8%	6.6%	5.0%	4.0%
Other Fixed	17.2%	13.9%	16.6%	23.1%
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Accounts Payable	19.6%	14.5%	17.3%	18.3%
Other Current Liabilities	3.9%	6.0%	6.7%	2.4%
Total Current Liabilities	23.5%	20.5%	24.0%	20.7%
Long Term Liabilities	17.4%	8.6%	17.5%	18.7%
Net Worth or Owner Equity	59.1%	70.9%	58.5%	60.6%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS				
Current Ratio	3.3	3.8	3.3	2.9
Quick Ratio	1.3	1.5	1.2	1.3
Cash to Current Liabilities	27.5%	43.8%	26.9%	20.2%
Accounts Payable to Inventory	42.6%	30.8%	36.1%	45.7%
Defensive Interval (Days)	43.3	70.1	62.4	38.9
Debt Equity	0.7	0.4	0.7	0.7
ACTIVITY/PROFITABILITY RATIOS				
Inventory Turnover	3.8	4.7	2.5	3.8
Sales to Inventory	5.2	6.1	3.4	5.1
Gross Margin Return on Inventory	133.4%	143.0%	89.1%	125.4%
Sales to Working Capital	4.4	4.9	3.0	4.2
Times Interest Earned	4.0	17.8	4.6	2.2
EBIT to Total Assets	6.6%	18.6%	4.6%	6.4%
CASH CYCLE				
Cash Sales %	25%	20%	26%	18%
Average Collection Period (Days)	48.5	35.4	65.9	58.6
Inventory Holding Period (Days)	95.4	77.5	143.3	95.9
Gross Cash Flow	144.0	113.0	209.2	154.5
Accounts Payable to Payout Period	40.6	23.9	51.8	43.8
Cash Cycle	103.3	89.1	157.4	110.7
SQUARE FOOTAGE PRODUCTIVITY				
Selling Area (Square Feet)	7,400	6,000	5,900	25,000
Sales per Square Foot (Selling Area)	$680	$957	$803	$568
Gross Margin per Square Foot (Selling Area)	$176	$223	$208	$141
Inventory per Square Foot (Selling Area)	$132	$156	$234	$112
Total Area (Square Feet)	29,500	26,500	23,500	92,500
Rent per Square Foot (Total Area)	$2.51	$2.96	$3.36	$1.59
EMPLOYEE PRODUCTIVITY RATIOS				
Number of Employees (FTE)	21.0	17.5	17.5	60.0
Sales per Employee	$239,670	$328,136	$270,796	$236,564
Gross Margin Per Employee	$61,957	$76,472	$70,176	$58,605
Salary Per Employee	$29,405	$27,414	$32,386	$31,290
Payroll Per Employee (including benefits)	$35,573	$32,773	$39,844	$36,673

LUMBER/BUILDING MATERIALS OUTLETS BY SALES VOLUME

	Lumber Outlet Under $6 Million	Lumber Outlet Over $6 Million
RESPONDENT PROFILE		
Number of Firms Reporting	39	31
Typical Sales Volume by Firm	$3,556,645	$14,193,867
Typical Sales Volume per Store	$3,328,655	$8,906,847
Sales Growth (2006 vs. 2005)	1.2%	1.0%
Total Assets By Firm	$1,351,039	$4,512,093
Selling Area (Square Feet)	4,800	15,500
Total Area (Square Feet)	13,800	53,600
Annual Customer Count	26,400	84,200
Sales per Customer	$135	$169
Sales by Type of Customer		
Consumer	31%	19%
Contractor/Remodelers	64%	76%
Industrial/Commercial Accounts	5%	5%
STRATEGIC PROFIT MODEL RATIOS		
Profit Margin (pre-tax)	2.4%	2.5%
Asset Turnover	2.6	3.1
Return on Assets (pre-tax)	6.2%	7.9%
Financial Leverage	1.6	1.9
Return on Net Worth (pre tax)	10.0%	14.6%
INCOME STATEMENT		
Net Sales	**100.0%**	**100.0%**
Cost of Goods	75.4%	74.0%
Gross Margin	**24.6%**	**26.0%**
Purchase Rebate	0.6%	0.8%
Gross Margin After Rebate	**25.2%**	**26.8%**
Payroll Expenses		
Owners	2.7%	2.0%
Other Employees	9.7%	11.0%
Total Payroll	12.4%	13.0%
Taxes	1.2%	1.2%
Group Insurance (Medical, etc.)	0.9%	0.7%
Benefit Plans (Pension, etc.)	0.3%	0.5%
Total Payroll	**14.8%**	**15.4%**
Occupancy Expenses		
Utilities	0.4%	0.3%
Building Repairs	0.4%	0.4%
Rent	1.5%	1.9%
Total Occupancy	**2.3%**	**2.6%**
Other Operating Expenses		
Advertising & Promotion	0.6%	0.5%
Telephone	0.2%	0.2%
Insurance (Liability & Casualty)	0.6%	0.5%
Interest Expense	0.5%	0.6%
Taxes	0.2%	0.2%
Depreciation	1.0%	1.0%
Bad Debt Losses	0.1%	0.1%
All Other Operating Expenses	3.4%	3.7%
Total Other Operating Expenses	**6.6%**	**6.8%**
Total Operating Expense	**23.7%**	**24.8%**
Operating Profit	**1.5%**	**2.0%**
Other Income/Expenses	0.9%	0.5%
Profit Before Taxes	**2.4%**	**2.5%**

LUMBER/BUILDING MATERIALS OUTLETS BY SALES VOLUME

	Lumber Outlet Under $6 Million	Lumber Outlet Over $6 Million
BALANCE SHEET		
Assets		
Cash	4.7%	5.7%
Accounts Receivable	23.9%	29.3%
Inventory	50.6%	37.6%
Other Current	1.8%	2.1%
Total Current Assets	81.0%	74.7%
Investments (Stocks, Bonds, etc.)	4.2%	6.8%
Other Fixed	14.8%	18.5%
Total Assets	100.0%	100.0%
Liabilities and Net Worth		
Accounts Payable	15.2%	17.7%
Other Current Liabilities	3.8%	11.5%
Total Current Liabilities	19.0%	29.2%
Long Term Liabilities	18.9%	16.8%
Net Worth or Owner Equity	62.1%	54.0%
Total Liabilities and Net Worth	100.0%	100.0%
LIQUIDITY/DEBT RATIOS		
Current Ratio	4.2	2.6
Quick Ratio	1.5	1.2
Cash to Current Liabilities	24.2%	19.5%
Accounts Payable to Inventory	30.0%	47.1%
Defensive Interval (Days)	28.7	27.8
Debt Equity	0.6	0.9
ACTIVITY/PROFITABILITY RATIOS		
Inventory Turnover	3.9	6.1
Sales to Inventory	5.2	8.4
Gross Margin Return on Inventory	131.1%	224.5%
Sales to Working Capital	4.3	6.9
Times Interest Earned	5.7	5.0
EBIT to Total Assets	7.5%	9.9%
CASH CYCLE		
Cash Sales %	30%	20%
Average Collection Period (Days)	47.4	42.6
Inventory Holding Period (Days)	93.7	59.4
Gross Cash Flow	141.1	102.0
Accounts Payable to Payout Period	28.1	28.0
Cash Cycle	113.0	74.0
SQUARE FOOTAGE PRODUCTIVITY		
Selling Area (Square Feet)	4,800	15,500
Sales per Square Foot (Selling Area)	$741	$916
Gross Margin per Square Foot (Selling Area)	$186	$245
Inventory per Square Foot (Selling Area)	$142	$109
Total Area (Square Feet)	13,800	53,600
Rent per Square Foot (Total Area)	$3.84	$4.97
EMPLOYEE PRODUCTIVITY RATIOS		
Number of Employees (FTE)	12.0	42.0
Sales per Employee	$296,387	$337,949
Gross Margin Per Employee	$74,592	$90,482
Salary Per Employee	$36,742	$44,086
Payroll Per Employee (including benefits)	$43,967	$52,122

LUMBER/BUILDING MATERIALS OUTLETS - HISTORICAL TRENDS

	2002	2003	2004	2005	2006
RESPONDENT PROFILE					
Number of Firms Reporting	118	96	55	95	70
Typical Sales Volume by Firm	$4,188,705	$4,440,931	$5,395,528	$5,064,973	$5,033,061
Typical Sales Volume per Store	$3,305,250	$3,946,574.50	$4,387,515	$4,125,800	$4,707,751
Sales Growth (vs. Previous Year)	4.8%	2.8%	3.9%	0.0%	1.0%
Total Assets By Firm	$1,473,300	$1,626,872	$1,828,718	$1,802,669	$2,123,617
Selling Area (Square Feet)	8,000	7,485	10,000	8,000	7,400
Total Area (Square Feet)	60,000	64,307	53,524	50,000	29,500
Annual Customer Count	52,300	48,000	49,162	45,482	50,000
Sales per Customer	$80	$93	$110	$111	$101
Sales by Type of Customer					
Consumer	31%	32%	32%	26%	25%
Contractor/Remodelers	64%	63%	63%	63%	69%
Industrial/Commercial Accounts	5%	5%	5%	11%	6%
STRATEGIC PROFIT MODEL RATIOS					
Profit Margin (pre-tax)	2.3%	1.9%	2.0%	2.0%	2.1%
Asset Turnover	2.8	2.7	3.0	2.8	2.4
Return on Assets (pre-tax)	6.5%	5.1%	6.0%	5.5%	4.9%
Financial Leverage	1.5	1.6	1.6	1.4	1.7
Return on Net Worth (pre tax)	10.0%	8.2%	9.6%	7.9%	8.3%
INCOME STATEMENT					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	100.0%
Cost of Goods	75.1%	76.3%	74.5%	76.0%	74.7%
Gross Margin	**24.9%**	**23.7%**	**25.5%**	**24.0%**	**25.3%**
Purchase Rebate	0.0%	0.0%	0.1%	0.1%	0.6%
Gross Margin After Rebate	**24.9%**	**23.7%**	**25.6%**	**24.2%**	**25.9%**
Payroll Expenses					
Owners	1.6%	1.8%	1.7%	1.4%	2.3%
Other Employees	11.0%	9.8%	10.2%	10.6%	10.0%
Total Payroll	12.6%	11.6%	11.9%	12.0%	12.3%
Taxes	1.0%	1.0%	1.1%	1.1%	1.2%
Group Insurance (Medical, etc.)	0.7%	0.8%	1.0%	0.7%	0.9%
Benefit Plans (Pension, etc.)	0.1%	0.1%	0.2%	0.2%	0.4%
Total Payroll	**14.4%**	**13.5%**	**14.2%**	**14.0%**	**14.8%**
Occupancy Expenses					
Utilities	0.4%	0.4%	0.4%	0.4%	0.3%
Building Repairs	0.3%	0.2%	0.2%	0.2%	0.3%
Rent	1.2%	1.1%	1.4%	1.1%	1.5%
Total Occupancy	**1.9%**	**1.7%**	**2.0%**	**1.6%**	**2.1%**
Other Operating Expenses					
Advertising & Promotion	0.7%	0.7%	0.6%	0.6%	0.6%
Telephone	0.3%	0.2%	0.2%	0.2%	0.3%
Insurance (Liability & Casualty)	0.6%	0.7%	0.6%	0.5%	0.6%
Interest Expense	0.5%	0.5%	0.6%	0.5%	0.7%
Taxes	0.2%	0.2%	0.3%	0.3%	0.2%
Depreciation	1.3%	1.2%	1.3%	0.9%	1.3%
Bad Debt Losses	0.2%	0.2%	0.2%	0.2%	0.1%
All Other Operating Expenses	3.2%	3.6%	3.7%	4.1%	3.8%
Total Other Operating Expenses	**7.0%**	**7.3%**	**7.7%**	**7.2%**	**7.6%**
Total Operating Expense	**23.3%**	**22.5%**	**23.9%**	**22.8%**	**24.5%**
Operating Profit	**1.6%**	**1.2%**	**1.7%**	**1.4%**	**1.4%**
Other Income/Expenses	0.7%	0.7%	0.4%	0.6%	0.7%
Profit Before Taxes	**2.3%**	**1.9%**	**2.0%**	**2.0%**	**2.1**

LUMBER/BUILDING MATERIALS OUTLETS - HISTORICAL TRENDS

	2002	2003	2004	2005	2006
BALANCE SHEET					
Assets					
Cash	4.6%	3.1%	3.3%	5.5%	6.5%
Accounts Receivable	29.7%	32.5%	28.0%	28.4%	23.6%
Inventory	47.4%	44.8%	43.0%	47.4%	45.9%
Other Current	0.7%	1.0%	0.8%	1.8%	2.0%
Total Current Assets	82.4%	81.4%	75.1%	83.1%	78.1%
Investments (Stocks, Bonds, etc.)	5.4%	3.7%	4.6%	4.8%	4.8%
Other Fixed	12.2%	14.9%	20.3%	12.1%	17.2%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Accounts Payable	21.5%	22.2%	16.7%	14.0%	19.6%
Other Current Liabilities	4.8%	6.0%	7.0%	6.5%	3.9%
Total Current Liabilities	27.8%	30.2%	25.9%	22.2%	23.5%
Long Term Liabilities	8.3%	9.3%	13.8%	10.3%	17.4%
Net Worth or Owner Equity	65.4%	62.5%	62.5%	69.2%	59.1%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
LIQUIDITY/DEBT RATIOS					
Current Ratio	3.0	2.7	2.9	3.7	3.3
Quick Ratio	1.2	1.2	1.2	1.5	1.3
Cash to Current Liabilities	16.5%	10.4%	12.7%	24.8%	27.5%
Accounts Payable to Inventory	45.4%	49.8%	38.9%	29.6%	42.6%
Defensive Interval (Days)	26.8	19.7	18.1	32.6	43.3
Debt Equity	0.5	0.6	0.6	0.4	0.7
ACTIVITY/PROFITABILITY RATIOS					
Inventory Turnover	4.5	4.7	5.1	4.5	3.8
Sales to Inventory	6.0	6.1	6.9	5.9	5.2
Gross Margin Return on Inventory	149.4%	144.6%	175.3%	143.2%	133.4%
Sales to Working Capital	5.2	5.3	6.0	4.6	4.4
Times Interest Earned	5.6	4.4	4.3	5.3	4.0
EBIT to Total Assets	8.0%	6.6%	7.8%	6.8%	6.6%
CASH CYCLE					
Cash Sales %	20%	20%	22%	20%	25%
Average Collection Period (Days)	47.7	54.3	44.1	46.2	48.5
Inventory Holding Period (Days)	81.0	78.4	71.5	81.2	95.4
Gross Cash Flow	128.7	132.7	115.6	127.4	144.0
Accounts Payable to Payout Period	36.8	39.0	27.8	24.0	40.6
Cash Cycle	91.9	93.7	87.8	103.4	103.3
SQUARE FOOTAGE PRODUCTIVITY					
Selling Area (Square Feet)	8,000	7,485	10,000	8,000	7,400
Sales per Square Foot (Selling Area)	$524	$593	$540	$633	$680
Gross Margin per Square Foot (Selling Area)	$130	$141	$138	$153	$176
Inventory per Square Foot (Selling Area)	$87	$97	$79	$107	$132
Total Area (Square Feet)	60,000	64,307	53,524	50,000	29,500
Rent per Square Foot (Total Area)	$0.84	$0.77	$1.36	$1.09	$2.51
EMPLOYEE PRODUCTIVITY RATIOS					
Number of Employees (FTE)	15.0	16.5	20.0	18.0	21.0
Sales per Employee	$279,247	$269,147	$269,776	$281,387	$239,670
Gross Margin Per Employee	$69,533	$63,825	$68,940	$67,999	$61,957
Salary Per Employee	$35,185	$31,195	$32,211	$33,701	$29,405
Payroll Per Employee (including benefits)	$40,212	$36,411	$38,400	$39,304	$35,573

Definitions of Terms & Ratios

FINANCIAL STATEMENTS

Income Statement—The income statement presents in a single format revenue derived from the sale of merchandise and expenses incurred to produce these sales. All financial report income statement data are presented as a percent of Net Sales.

Balance Sheet—The balance sheet is a statement of financial position at a given point in time; the report presents year-ending balance sheets. The balance sheet equation is expressed as Assets equal Liabilities plus Net Worth. All financial report balance sheet data are presented as a percent of Total Assets.

STRATEGIC PROFIT MODEL

The Strategic Profit Model combines the principle elements of the income statement and balance sheet in a profit planning equation. It helps retailers evaluate operational performance in terms of the most important criteria: Return on Net Worth. The formula is:

	Profit Margin
x	Asset Turnover
=	Return on Assets
x	Financial Leverage
=	Return on Net Worth

Using financial ratio analysis, the model clearly identifies three operational areas that affect Return on Net Worth: Profit Margin, Asset Turnover and Financial Leverage.

Profit Margin—This is the most important path to profitability. Managers can increase sales, decrease cost of goods sold and improve gross margins. While there is little management can do to control many expenses, a careful review of each expense line may reveal potential cost-saving areas. Refer to the benchmarks set by high-profit stores to develop targets.

Asset Turnover—Asset Turnover reflects the sales the firm produces per dollar invested in assets. It is calculated by dividing Net Sales by Total Assets. The key areas to focus on for immediate impact are managing inventory investments and controlling accounts receivable. While a high ratio indicates a good use of resources, a ratio too high can be a warning that a company is stretching its resources too far. A good target is 2.5x.

Return on Assets—This ratio measures the utilization of assets to produce profits and is a good indicator of a company's ability to survive and prosper. Higher percentages are generally considered positive, but excessive numbers may indicate too few assets and the potential for financial strain. A minimum standard is 5 percent, a typical target is 10 percent and a very good ratio is 20 percent.

Financial Leverage—By dividing Total Assets by Net Worth, managers can gauge their reliance on outside financing. A standard target is 1.5 or more. However, too high a number may mean the business is acting too conservatively and not realizing its full potential.

Return on Net Worth—Companies must earn an adequate return to satisfy the owner's needs. Minimum standards are about 10 percent. A good target is 20 percent, and a very good business will generate a 40 percent return.

FINANCIAL RATIOS

LIQUIDITY/DEBT RATIOS

CURRENT RATIO =

Current Assets ÷ Current Liabilities
It measures a company's ability to pay its debts as they mature. As a general rule, target 2.0x to 3.0x.

QUICK RATIO =

(Current Assets – Inventory) ÷ Current Liabilities
This ratio measures a company's ability to pay its short-term debts on short notice so only highly liquid assets are considered. Target a minimum standard of 1.0x. If this number remains low for a long period, additional financing may be in order as a short-term solution.

CASH TO CURRENT LIABILITIES =

Cash ÷ Current Liabilities
Also known as liquidity ratio, it is of interest to short-term creditors because it is the most stringent test of the ability of a firm to meet current obligations.

ACCOUNTS PAYABLE TO INVENTORY =

Accounts Payable ÷ Inventory x 100
This formula reveals how much a company's inventory is being financed by suppliers.

DEFENSIVE INTERVAL =

Cash ÷ (Operating Expense Other Than Depreciation ÷ 365)
This conservative measurement reveals how long a company could operate on its cash reserves. A worst-case analysis calculates the number of days a business would be solvent if sales and collections stopped. A good minimum is 10 days.

DEBT TO EQUITY =

Total Liabilities ÷ Net Worth
This measures the owner's investment in comparison to financing provided by creditors. A mix of $1 of debt to $1 of equity is usually considered practical.

ACTIVITY/PROFITABILITY RATIOS

INVENTORY TURNOVER =

Cost of Goods Sold ÷ Inventory
Normally a high turnover rate means good inventory management, while slower turnover indicates too much inventory for the sales it generates.

SALES TO INVENTORY =

Net Sales ÷ Inventory at Cost
This is another method of measuring inventory turns. It provides an indication of the amount of merchandise on hand relative to the amount of sales volume it generates.

GROSS MARGIN RETURN ON INVENTORY (GMROI) =

Gross Margin ÷ Inventory x 100
This ratio measures the amount of gross margin dollars generated by each dollar tied up in inventory. GMROI allows managers to evaluate products and departments that have varying gross margins and inventory investment requirements. It helps retailers compare high-turn/low-margin lines against slower-moving/high-profit ones.

SALES TO WORKING CAPITAL =

Net Sales ÷ (Current Assets – Current Liabilities)
This ratio indicates how many dollars in sales the company makes for every dollar of working capital. A low number indicates a retailer is not employing working capital efficiently or profitably. Areas to concentrate on to improve this ratio are inventory turnover, reducing the time to collect accounts receivable and gaining more favorable payment terms.

TIMES INTEREST EARNED =

(Profit Before Taxes + Interest) ÷ Interest
This ratio measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs. It is used to assess a firm's ability to pay its liabilities, and it should be 2.0 or greater. A value of 1.0 or less suggests that the firm is not earning sufficient amounts to cover interest charges.

EBIT TO TOTAL ASSETS =

Earnings Before Interest and Taxes ÷ Total Assets x 100
This may be the best measurement of operational profitability because it ignores the negative effects of interest expense on profitability. EBIT to Total Assets should exceed the average borrowing rate for a company to justify the use of borrowed funds. A difference of two percentage points is desirable.

CASH CYCLE

CASH CYCLE =

Average Collection Period + Inventory Holding Period – Accounts Payable Period
By combining the three ratios that make up this formula, retailers can measure the length of time between the purchase of products and the collection of accounts receivable. Shortening this cycle provides the company more cash.

AVERAGE COLLECTION PERIOD =

Accounts Receivable ÷ (Credit Sales ÷ 365)
This is the average time period for which receivables are outstanding. A general target is 45 days, but this ratio is most meaningful when a business compares its numbers from year to year. As a rule, the average collection period should not exceed 1-1/3 times a company's typical terms. Extended receivables eat up working capital and mean someone else is using your money.

INVENTORY HOLDING PERIOD =

365 ÷ Inventory Turnover
Measures, in terms of days, how long inventory stays on the shelf.

ACCOUNTS PAYABLE TO PAYOUT PERIOD =

Accounts Payable ÷ (Cost of Goods Sold ÷ 365)
This measurement reveals how timely the business pays suppliers.

SQUARE FOOTAGE/EMPLOYEES/ CUSTOMER ANALYSIS

SALES PER SQUARE FOOT =

Net Sales ÷ Square Feet of Selling Area
This classic measurement remains one of the most important gauges of a store's productivity.

GROSS MARGIN PER SQUARE FOOT =

Gross Margin ÷ Square Feet of Selling Area
This ratio combines salesfloor productivity with gross margin data to show how much profit is being generated per square foot.

INVENTORY PER SQUARE FOOT =

Inventory ÷ Square Feet of Selling Area
Stores that stock more inventory per square foot typically generate higher sales. However, managers also need to consider other inventory measurements, such as turns.

SALES PER EMPLOYEE =

Net Sales ÷ Total Full-Time Equivalents
In calculating this ratio, two part-time employees are considered equivalent to one full-time employee. While comparisons to industry benchmarks are important, it is typically most useful when a retailer compares the number to past performance.

SALES PER CUSTOMER =

Net Sales ÷ Number of Customers
By measuring the average sale per transaction, a store can gauge how well its merchandising and sales staff are driving sales.

2007 COST OF DOING BUSINESS STUDY

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